



# 3Q 2018 Investor Presentation

Alaska Air Group

*Alaska*

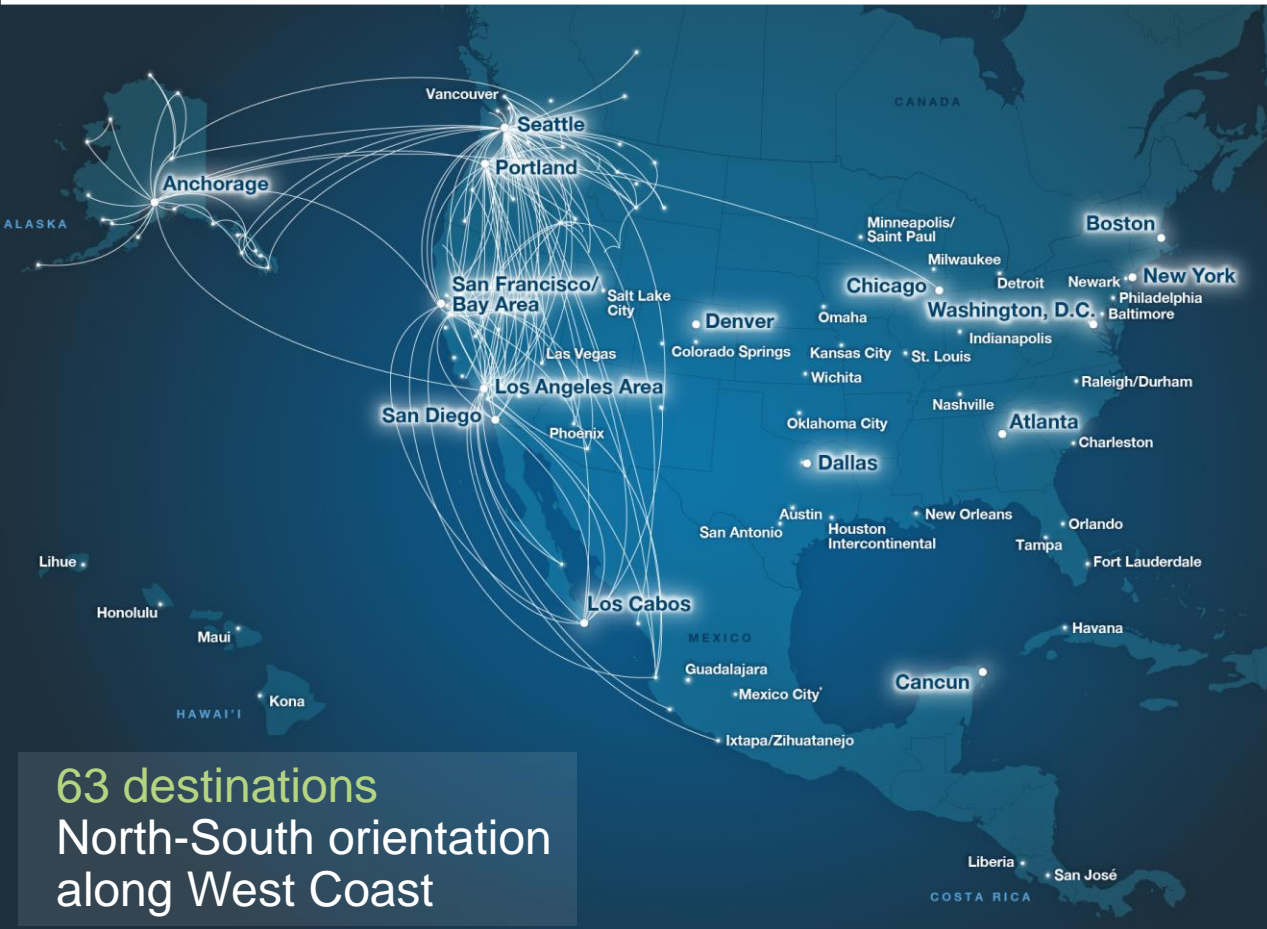
# Safe harbor

This presentation may contain forward-looking statements subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These statements relate to future events and involve known and unknown risks and uncertainties that may cause actual outcomes to be materially different from those indicated by any forward-looking statements. For a comprehensive discussion of potential risk factors, see Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as well as in other documents filed by the Company with the SEC after the date thereof. Some of these risks include competition, labor costs and relations, general economic conditions, increases in operating costs including fuel, inability to meet cost reduction goals, seasonal fluctuations in our financial results, an aircraft accident, changes in laws and regulations and risks inherent in the achievement of anticipated synergies and the timing thereof in connection with the acquisition of Virgin America. All of the forward-looking statements are qualified in their entirety by reference to the risk factors discussed therein. We operate in a continually changing business environment, and new risk factors emerge from time to time. Management cannot predict such new risk factors, nor can it assess the impact, if any, of such new risk factors on our business or events described in any forward-looking statements. We expressly disclaim any obligation to publicly update or revise any forward-looking statements after the date of this report to conform them to actual results. Over time, our actual results, performance or achievements will likely differ from the anticipated results, performance or achievements that are expressed or implied by our forward-looking statements, and such differences might be significant and materially adverse.



# Our Vision and Strategy

# We have a long track record of successful growth



2001



2018

# Our core values drive everything we do



Own  
**safety**



Do the  
**right thing**



Be  
**kind hearted**

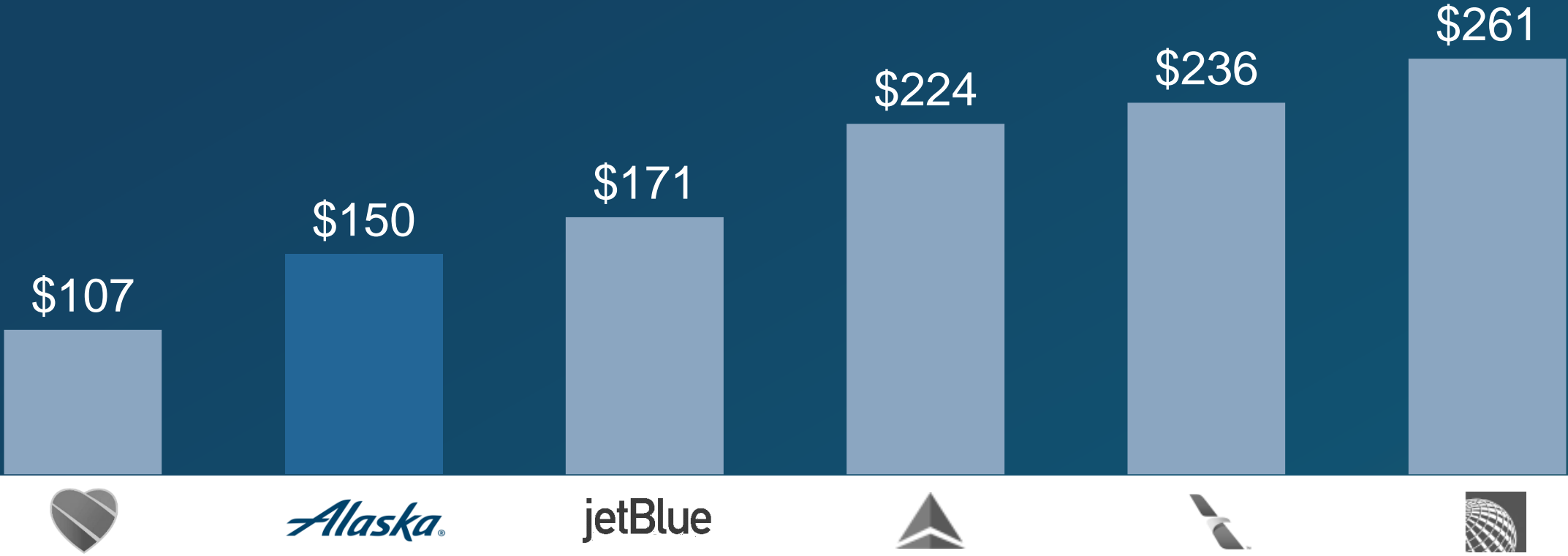


Deliver  
**performance**



Be  
**remarkable**

# Alaska is a low-cost airline offering fares substantially below the legacy carriers



Source: U.S. Department of Transportation, 12 months ending 1Q 2018, West Coast Origins to North American Destinations, Stage-Length Adjusted

# Meanwhile, our customer proposition is differentiated among LCCs and centered on guest loyalty



**Contemporary look and feel to the cabin**



**Satellite Connectivity**  
(rolling-out through 1Q 2020)



**Free Movies and Chat**



41" First Class Seat

35" Premium Class Seat

**New First and Premium Class Seats**



**Fresh, Regional Food & Beverage Offerings**



**Reimagined Lounges**



**Industry-Leading Loyalty Program**

# Our market positioning is distinctive on the West Coast



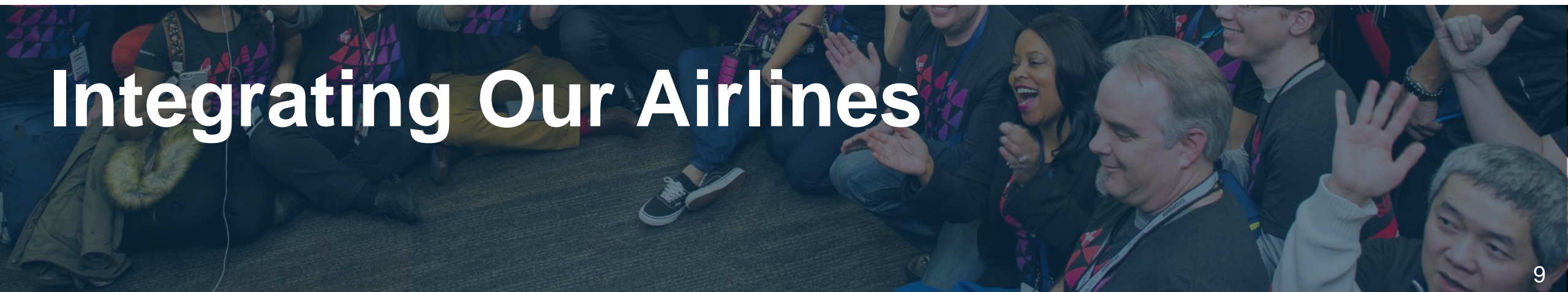
\*includes customer service quality, pre- and in-flight amenities, upgrade frequency, loyalty benefits, etc.

Fares from U.S. Department of Transportation; seat share reflects U.S. West Coast-originating flights to N. American destinations





# Integrating Our Airlines

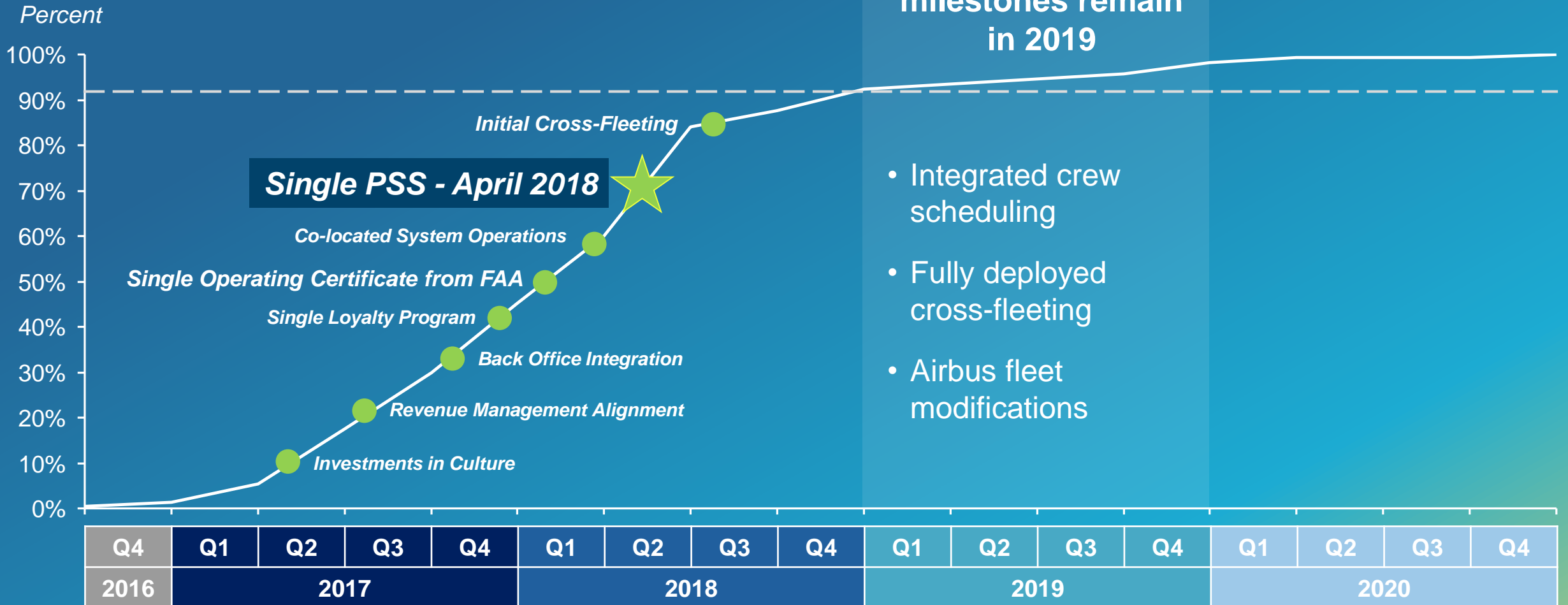


# Since deal close, we have completed major integration milestones faster than other recent airline mergers

Key milestone schedule <i>(Number of months from deal close)</i>					
Single Passenger Service System (PSS)	16 months 1 <sup>st</sup>	16 months	17 months	43 months	22 months
Single website	16 months 1 <sup>st</sup>	16 months	17 months	42 months	22 months
Full codeshare	At close 1 <sup>st</sup>	2 months	11 months	<i>n/a</i>	3 months
Frequent Flyer Program (FFP) integration	13 months 2 <sup>nd</sup>	12 months	17 months	42 months	15 months
Single Operating Certificate	13 months 2 <sup>nd</sup>	15 months	13 months	10 months	16 months
Single operations center (OCC)	15 months 3 <sup>rd</sup>	6 months	12 months	<i>n/a</i>	<i>n/a</i>

# 90%+ of integration milestones will be complete by the end of 2018

## Integration Cumulative Milestone Completion (2016-2020)



# Our PSS transition in April 2018 unlocked our ability to capture revenue synergies

All ticketing shifted to Alaska systems and 29 airports converted to a single brand on April 25...



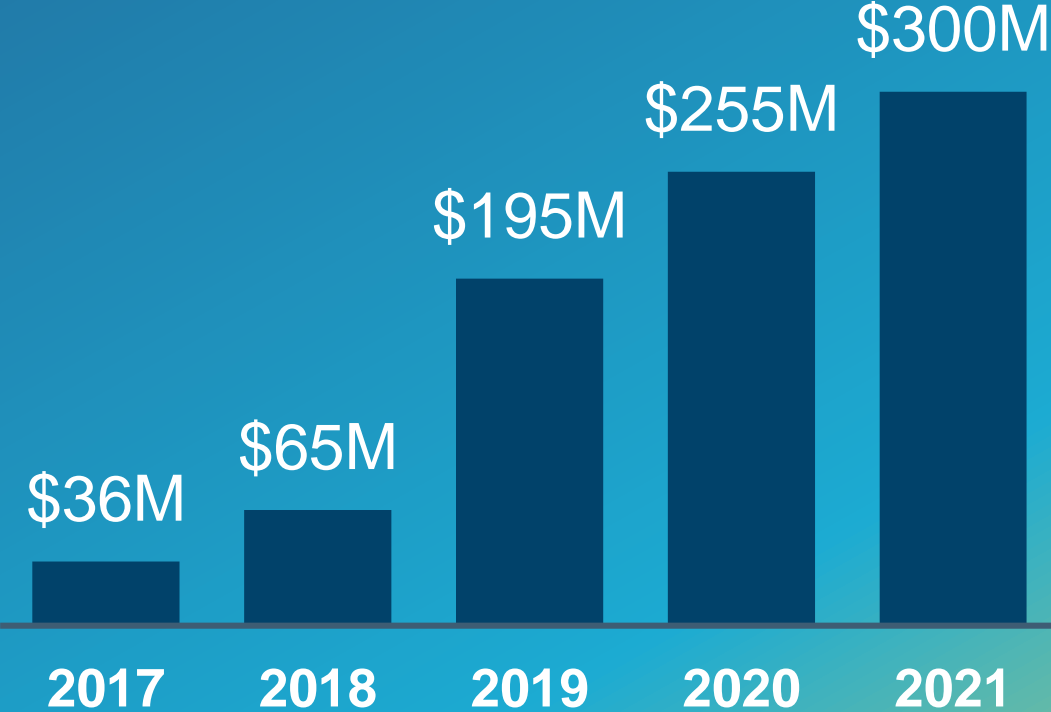
April 24th



April 25th

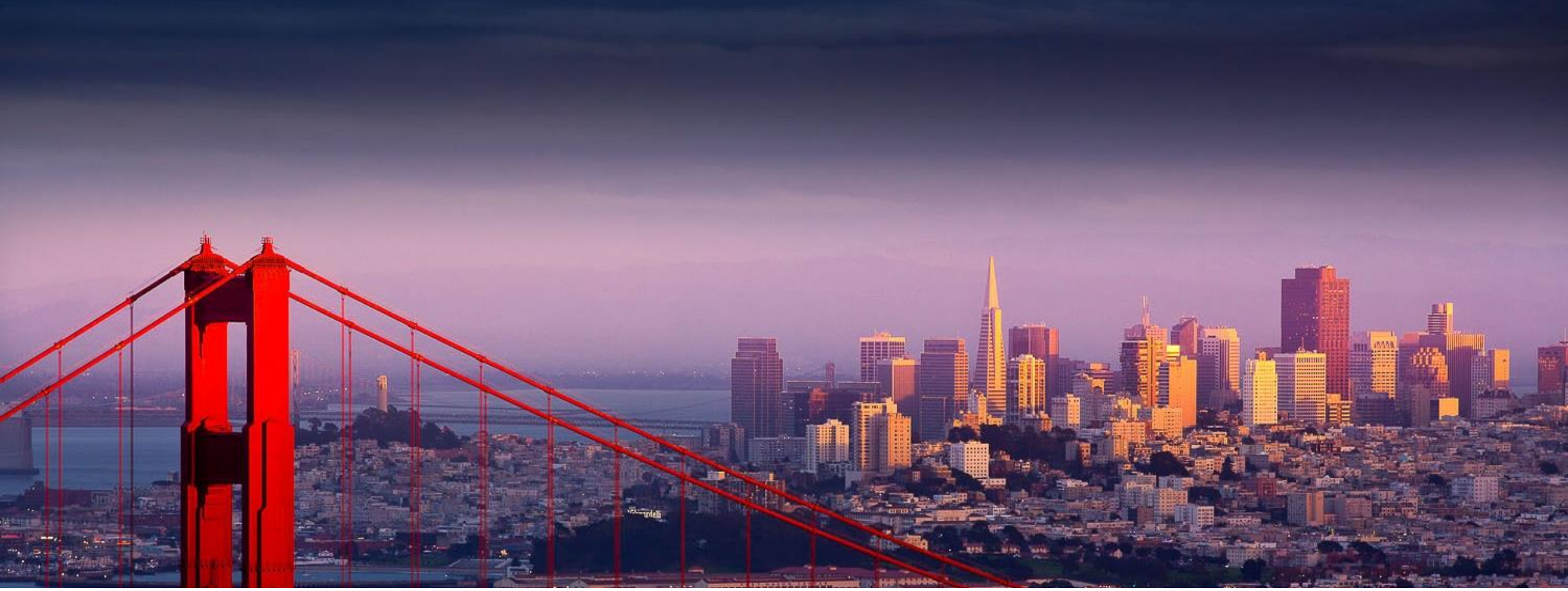
A single PSS makes revenue synergy capture possible, beginning in late 2018

*Annual synergies (revenue & cost) expected from Virgin America integration*



*Synergy capture remains on-track vis-à-vis our expectations at the time of the acquisition*

*...with zero disruption to our operation*



# Our West Coast Network

# Virgin America gave us expanded reach, and we added ~40 new routes to Virgin's foundation last year



Pre-deal Alaska network:  
**~240 routes**



Post-deal network including Virgin:  
**~280 routes**

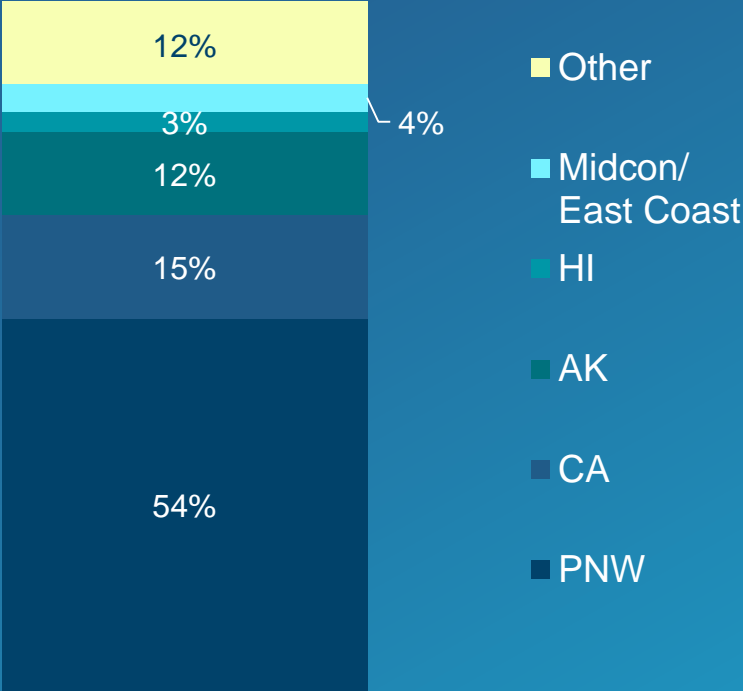


Combined Networks + New Markets:  
**~320 routes**

In 2018, Alaska operates a national network serving 115+ destinations from seven hubs along the U.S. West Coast

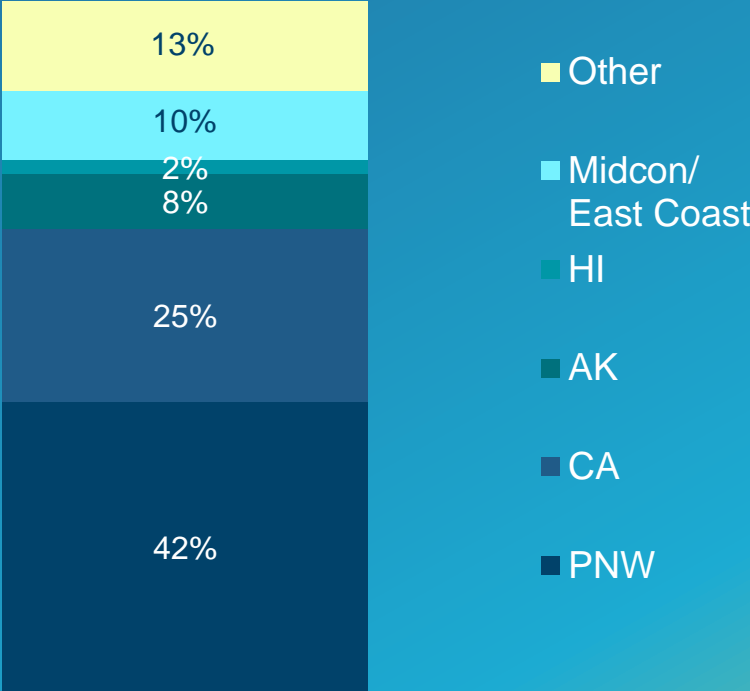
# Our network is more diverse geographically since the merger

2013 Network Composition



~825 Departures Per Day

2018 Network Composition



~1,200 Departures Per Day

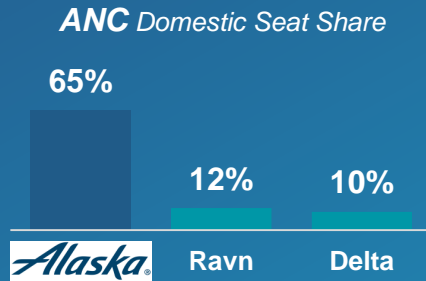
# Seven West Coast cities anchor our route network today

Alaska maintains a significant leadership position in the **Pacific Northwest**

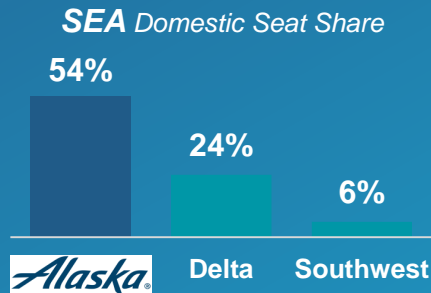
Alaska holds the #2 position at most hubs in **California**, a solid platform for future growth



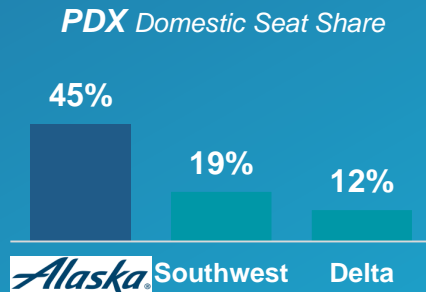
**~45 ALK**  
Daily Departures



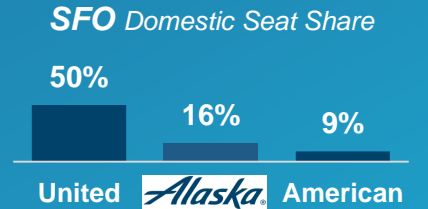
**~300 ALK**  
Daily Departures



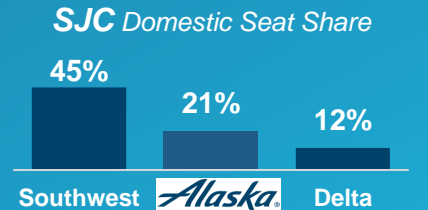
**~130 ALK**  
Daily Departures



**~90 ALK**  
Daily Departures



**~40 ALK**  
Daily Departures

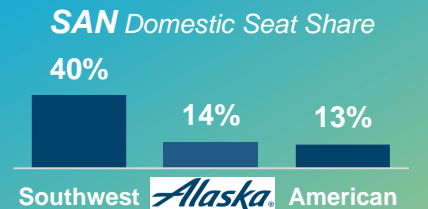


**~80 ALK**  
Daily Departures

**LAX Domestic Seat Share**

**ALK ranks #5 with 10% share in this strategic and fragmented market**

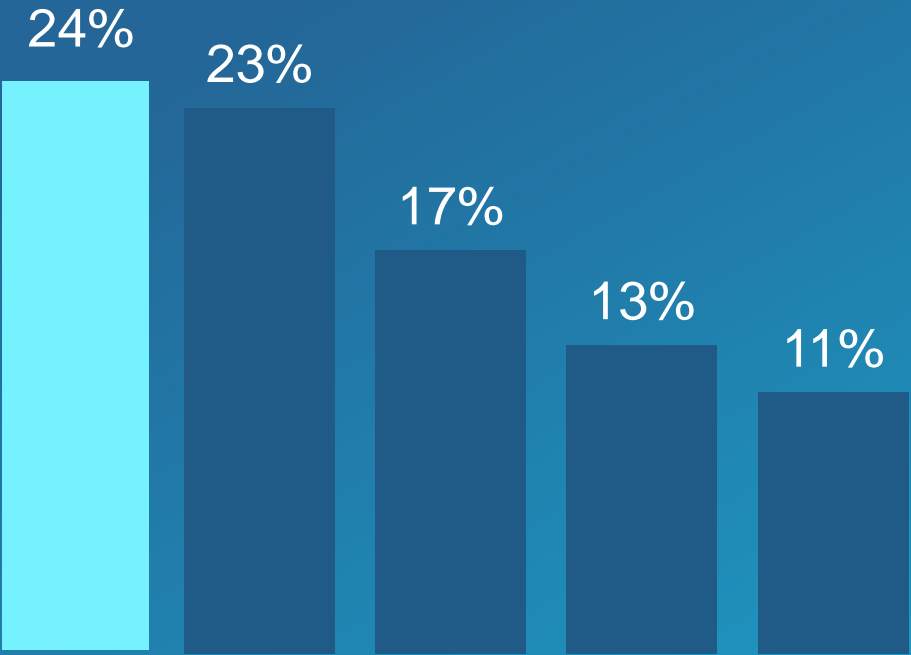
**~45 ALK**  
Daily Departures



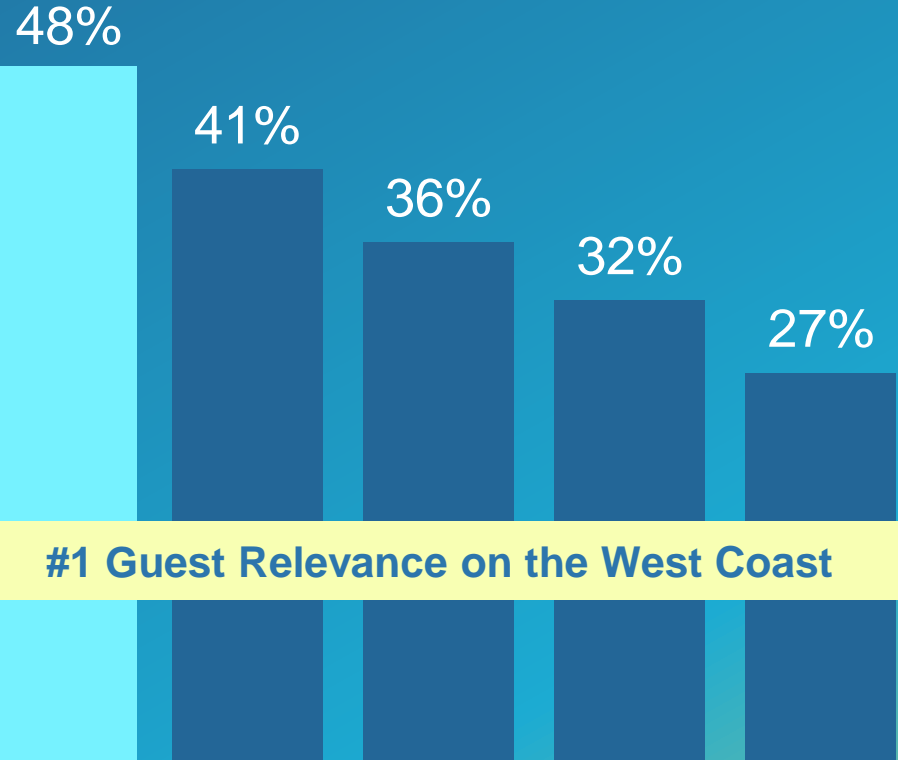


# We now offer the most seats and the highest relevance for West Coast passengers

West Coast Seat Share<sup>1</sup>



West Coast Relevance<sup>2</sup>



#1 Guest Relevance on the West Coast

Alaska



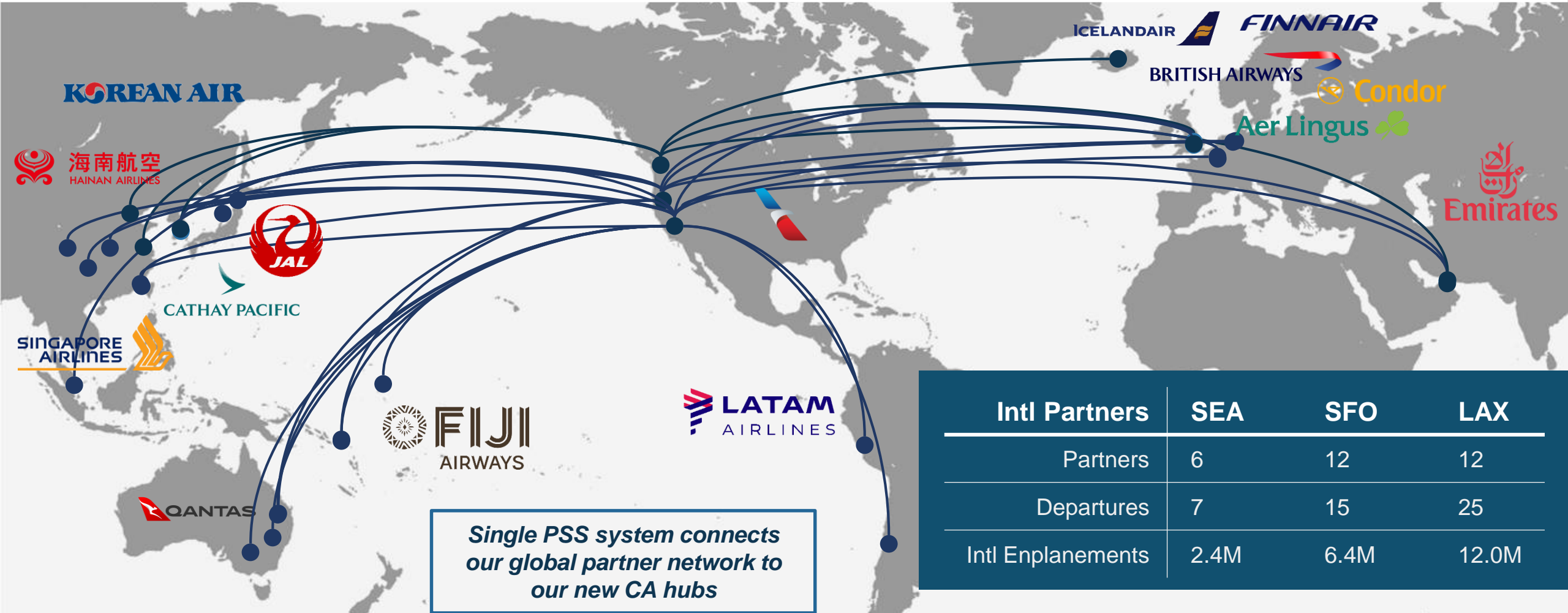
Alaska



Data reflects year-end 2018 schedules

1. U.S. West Coast-originating flights to North American destinations 2. Percent of West Coast to North America passengers served on a nonstop basis

# Our 15 global partners extend our network to more than 900 destinations around the world



*Single PSS system connects our global partner network to our new CA hubs*

Intl Partners	SEA	SFO	LAX
Partners	6	12	12
Departures	7	15	25
Intl Enplanements	2.4M	6.4M	12.0M

\* International enplanement figures are YE Aug 2017 totals published by airports



# Our Customer Proposition

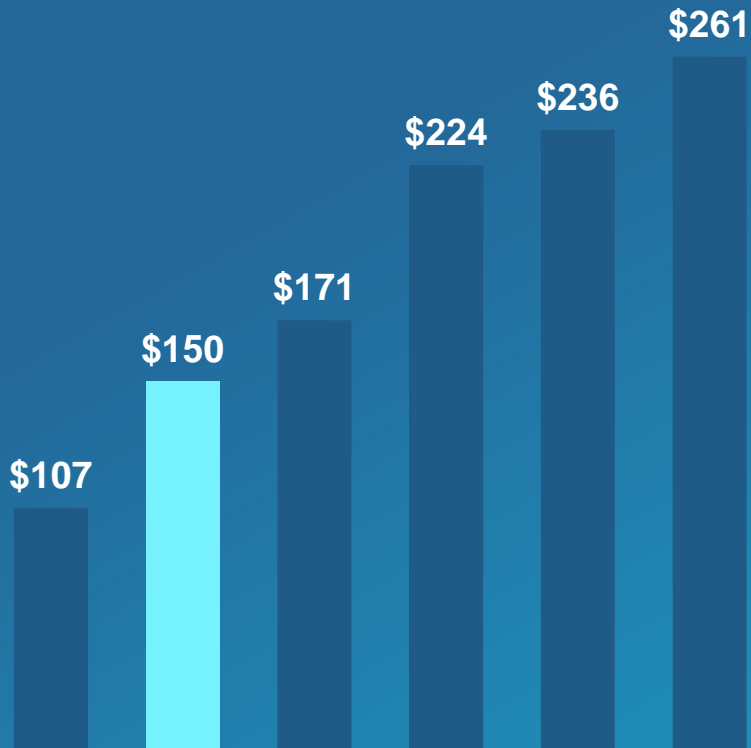
# Our value proposition, while multi-faceted, centers around building long-term relationships with our guests



# Low fares, great service and range of cabin options are the foundation of our offering

## Lower fares than legacy carriers

Stage-Length Adjusted Average Fares



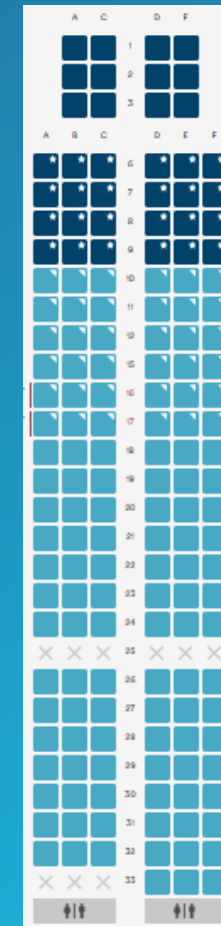
## Award-Winning Reliability & Service



**#1 Traditional Carrier,  
11 years in a row**  
in JP Power Annual Customer Satisfaction Study



## Multiple cabin options for guests



**First Class**  
competitive, high-service offering with an opportunity to upgrade elites

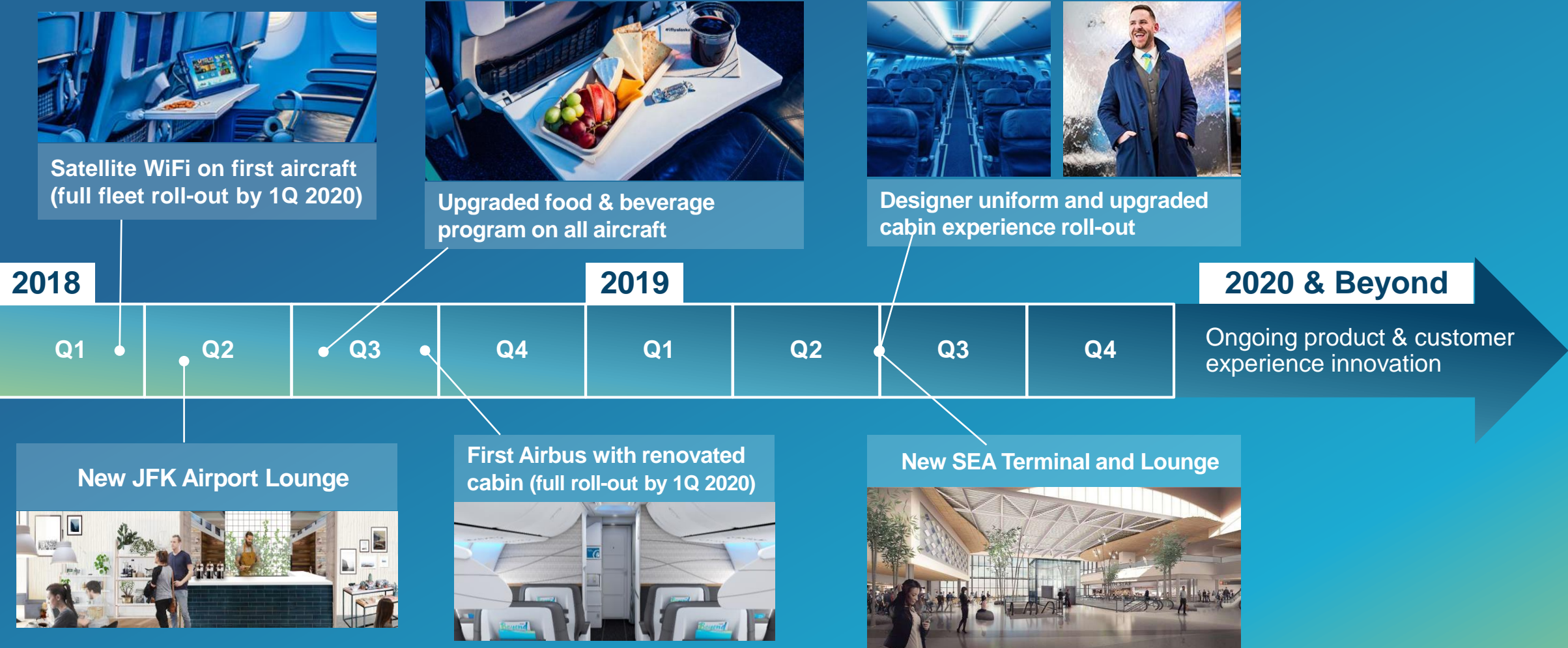
**Premium Class**  
caters to leisure travelers willing to pay more for extra pitch and premium food/beverage

**Main Cabin**  
classic LCC offering including seat assignments, cost-efficient entertainment, and thoughtful food/beverage for purchase

**Saver Fare (2019)**  
offers guests additional choice, especially those seeking the lowest fare in exchange for less ticket flexibility and fewer perks

*Seat map is conceptual to show segmentation; seat count and segment distribution varies by flight*

# Guest products will be aligned and upgraded across our fleet over the next 18 months



Our low-cost approach requires each product area to stand on its own from a P&L perspective

# Our loyalty platform is the best in the industry and offers the most generous benefits

## Mileage Plan™

- Miles for miles
- Low redemption prices
- Fastest path to elite
- Earn & redeem miles on Global Partners
- Complimentary Upgrades for elites

## Credit Card



Top Loyalty Program		X
Annual Fee	\$75	\$69-\$99
Companion Certificate	\$99	X
Miles on Airline Spend	3X	2X

# Our Mileage Plan & affinity card programs build high-value guest relationships

## Mileage Plan Members:

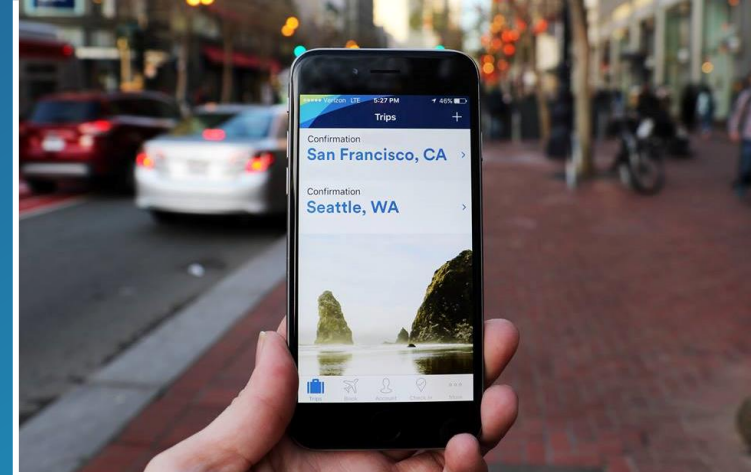
**4X** more revenue

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**65%** more likely to book direct

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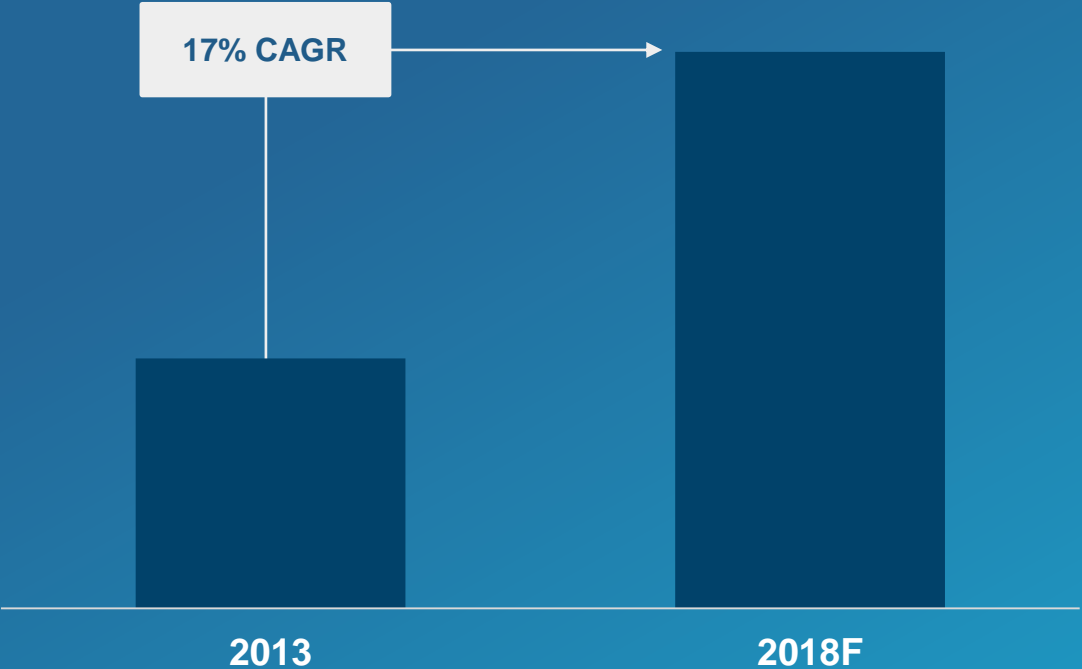
**30%** have a credit card



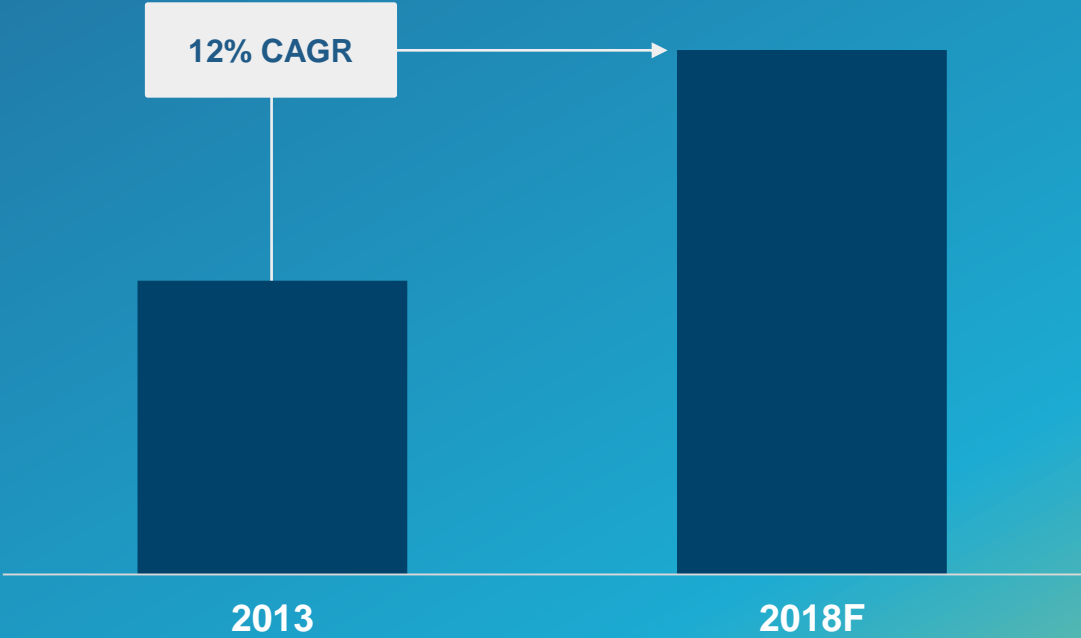


# Loyalty program growth far exceeds passenger growth...

## Mileage Plan Membership



## Affinity Cardholders

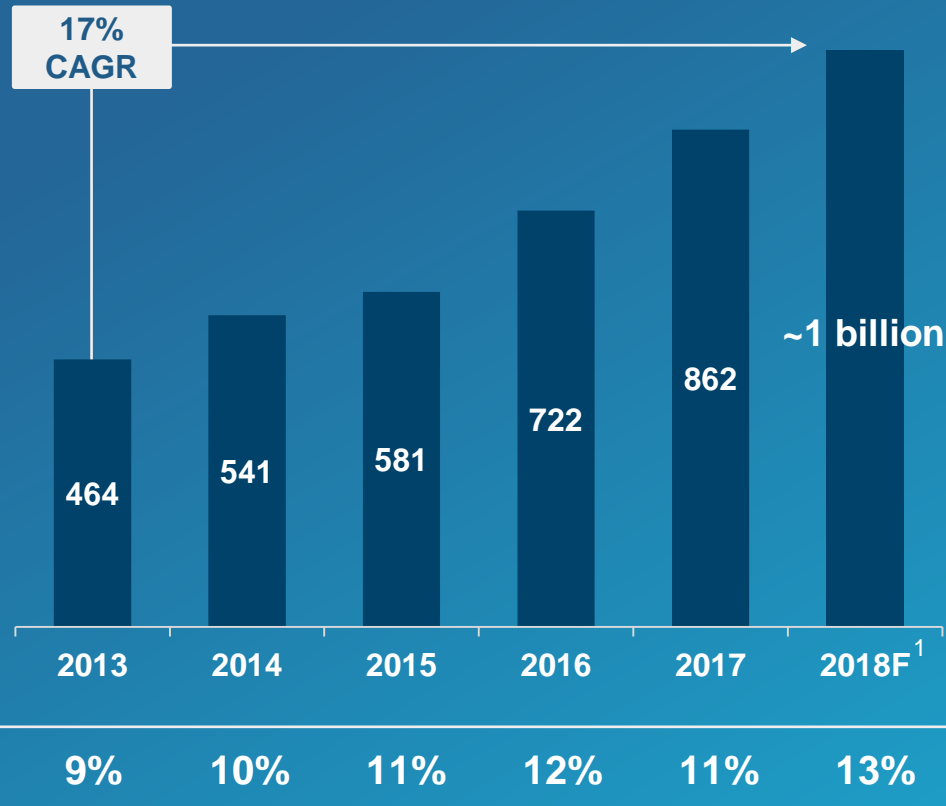


*Growth outpaces system average in California*

# ...and continues to drive growth in revenues and cash flows

## Mileage Plan revenues continue to grow rapidly...

Total Mileage Plan Revenues, \$ millions



## ...and our card programs generate substantial cash flow



**~\$1 billion**  
in cash flows from card programs in 2017

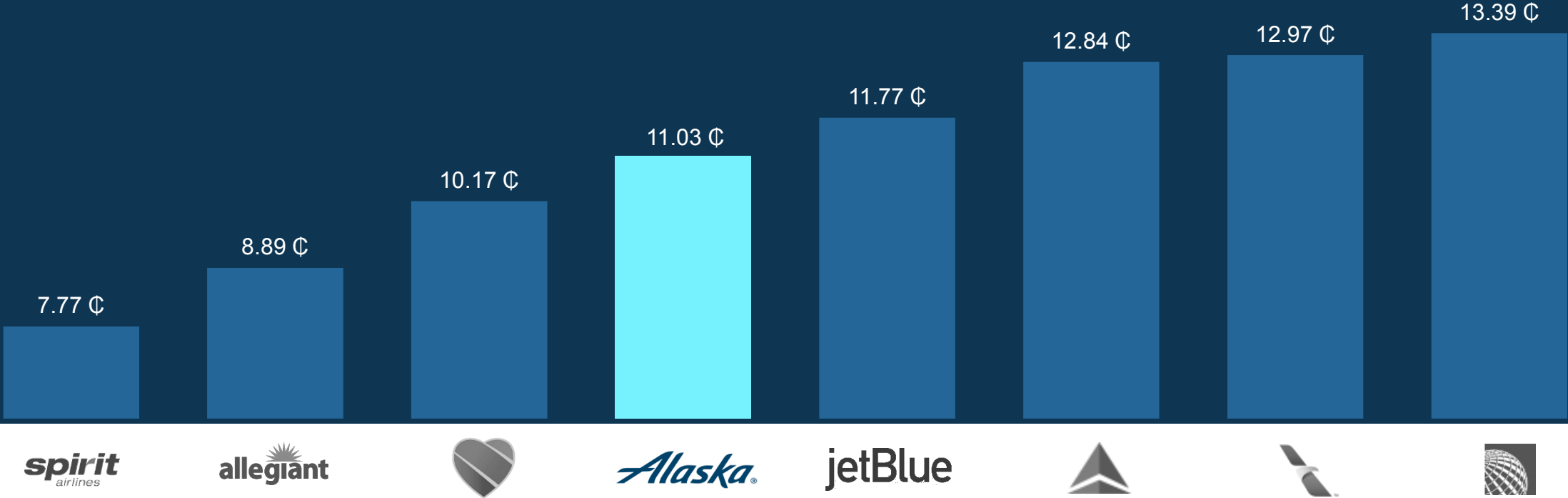
1. 1H 2018 annualized run-rate



# Our Cost and Operations Advantage

# Our efficient cost structure is a competitive advantage

## Stage-Length Adjusted Total CASM<sup>1</sup>

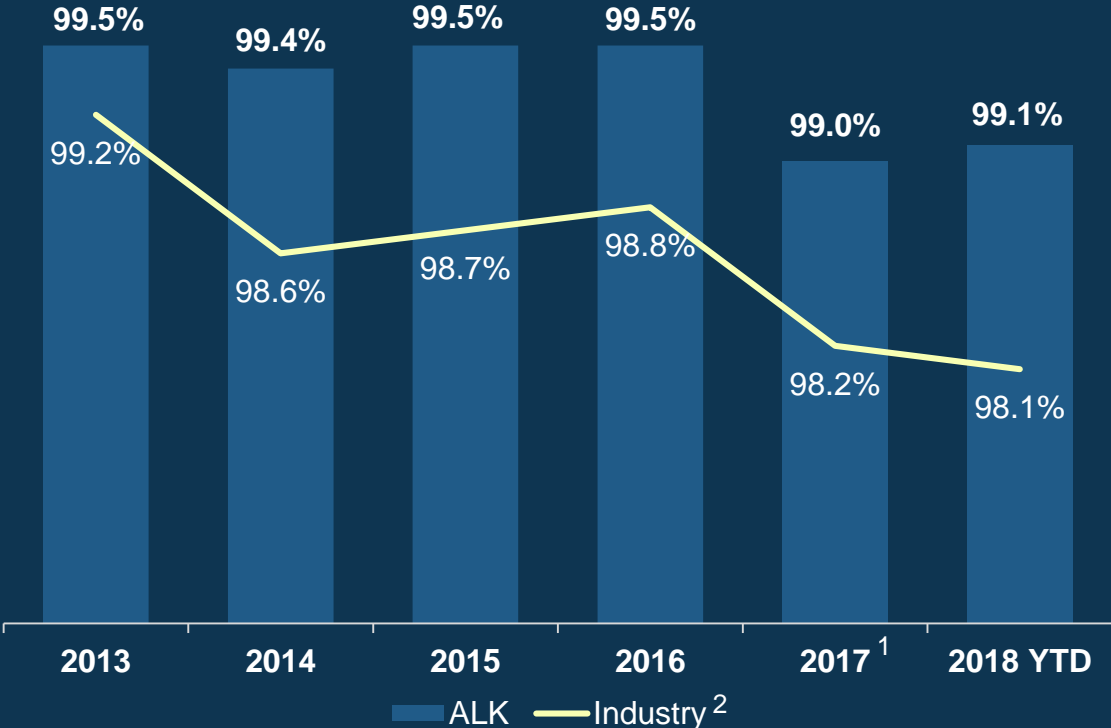
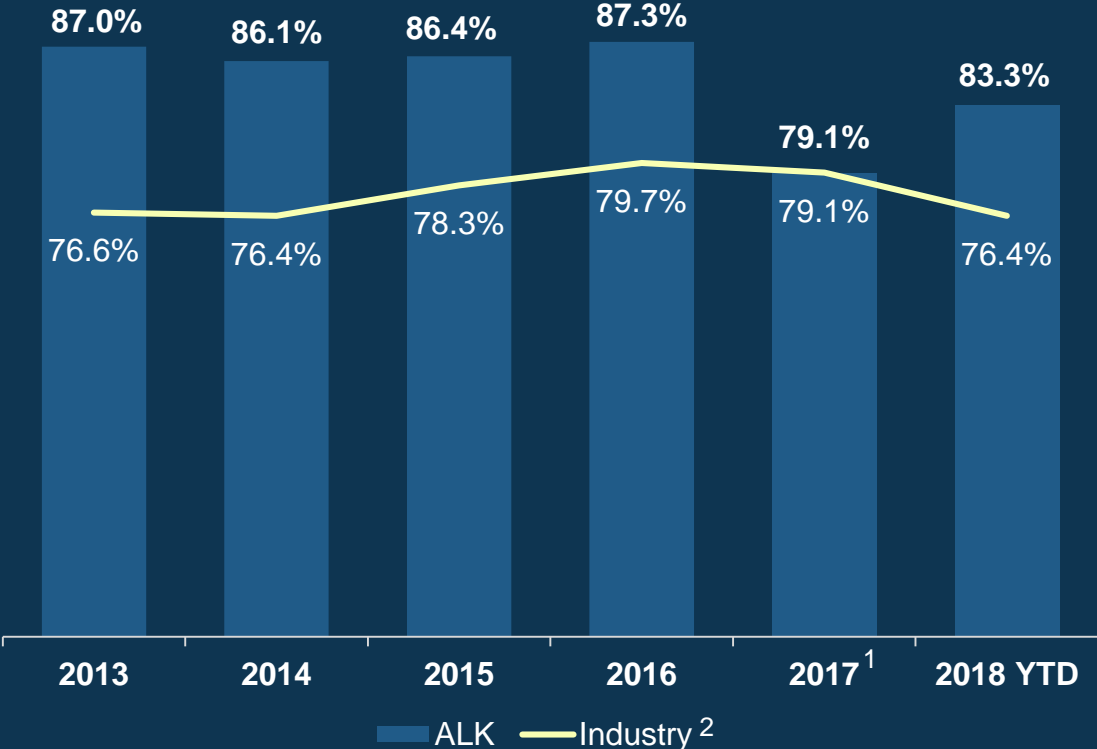


1. Trailing 12-Months Ended 6/30/18 2. U.S. West Coast-originating flights to North American destinations

# Our low costs are underpinned by industry-leading operations

**On-time performance** led the industry for 7 years prior to the integration, and we have regained our advantage in 2018

**Completion rate** has also been strong for many years relative to competitors

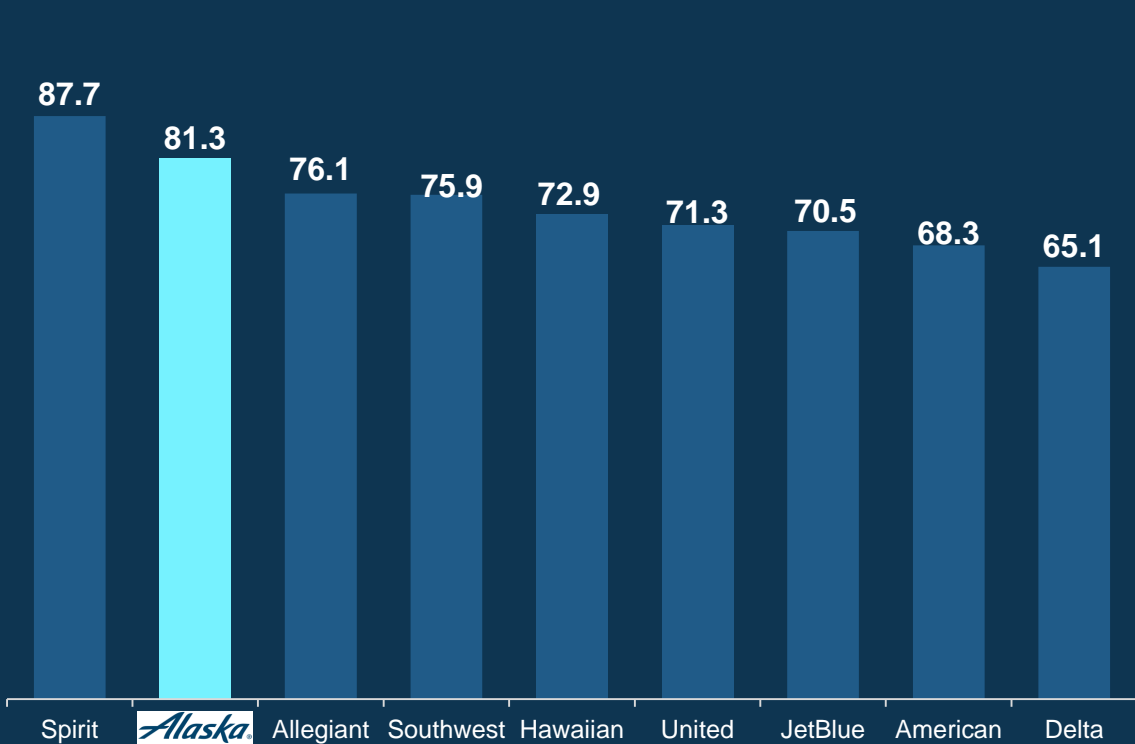


1. 2017 is Alaska + Virgin America  
 2. "Industry" includes AAL, DAL, UAL, LUV, JBLU, SAVE

# A young, fuel-efficient fleet also supports a low cost structure

## Mainline Fuel Efficiency

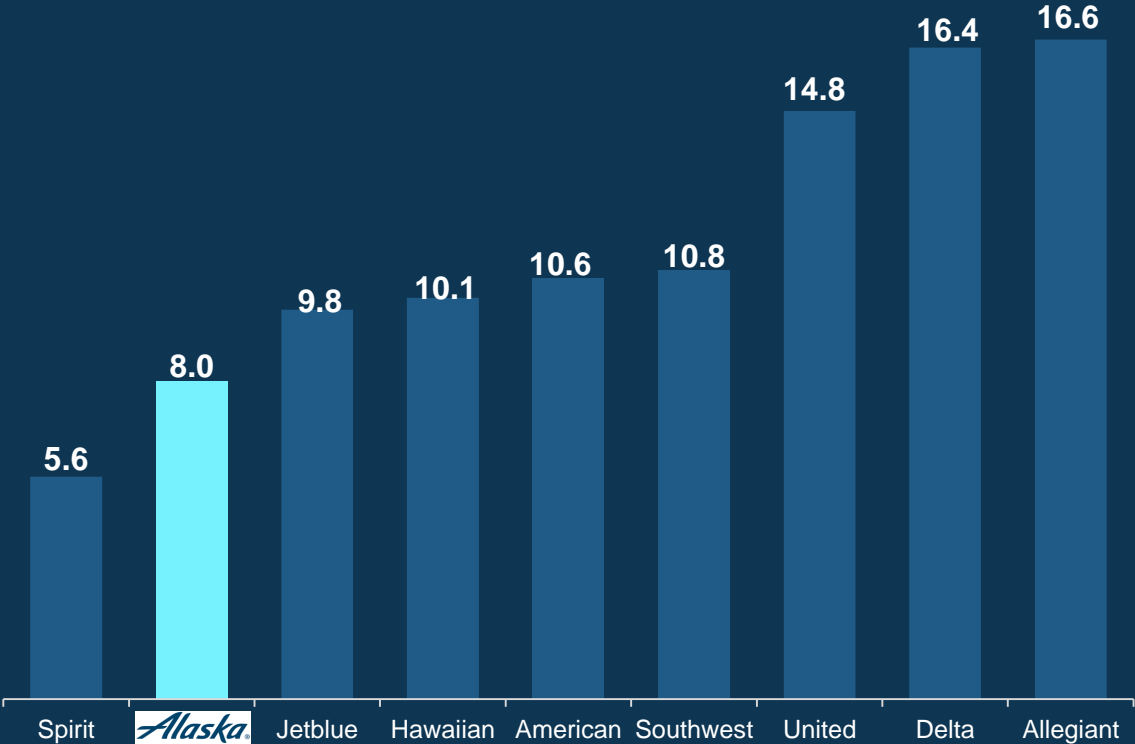
ASMs per gallon, Trailing 12 Months



Data as of 6/30/18

## Average Fleet Age

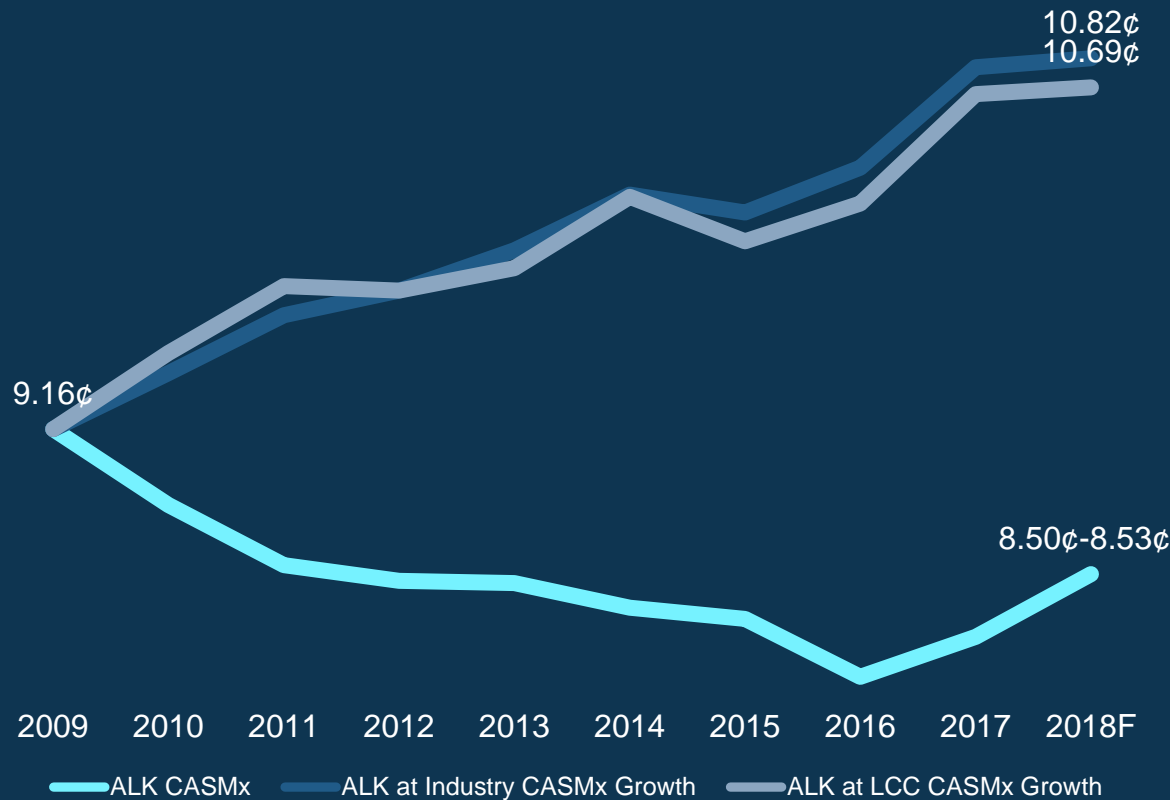
Years



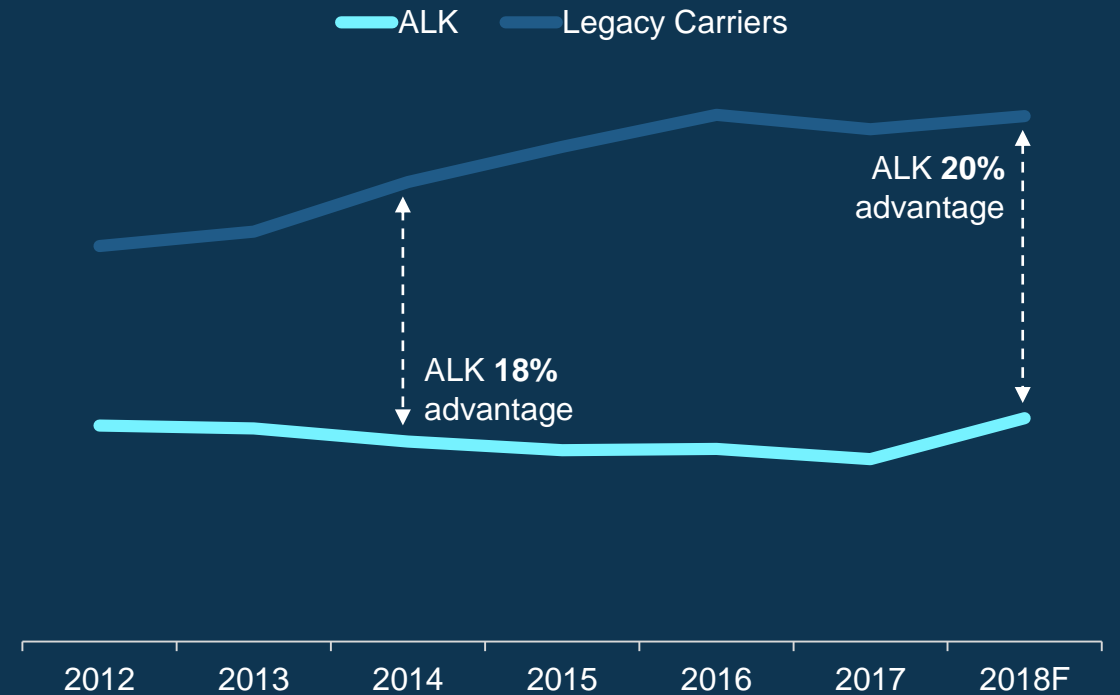
Data as of August 2018

# Our relative cost advantage remains substantial despite marking our pilot pay scales to market in 2018

ALK Total CASM excluding Fuel

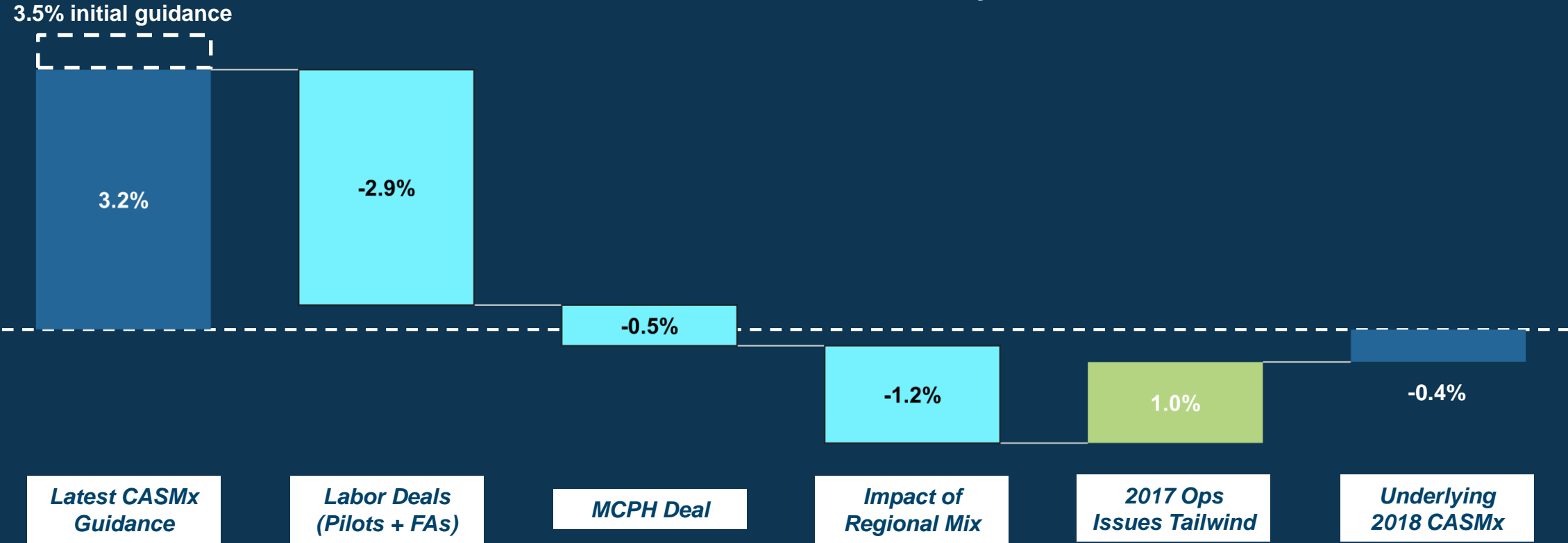


Stage-Length Adjusted CASMx – ALK vs. Legacies



# Underlying CASMx guidance is down for 2018, adjusting for the unique headwinds and tailwinds we face this year

## 2018 CASMx Guidance – Key Drivers



*2018 CASMx guidance has declined 30 bps versus initial guidance despite 40 bps lower ASM growth*

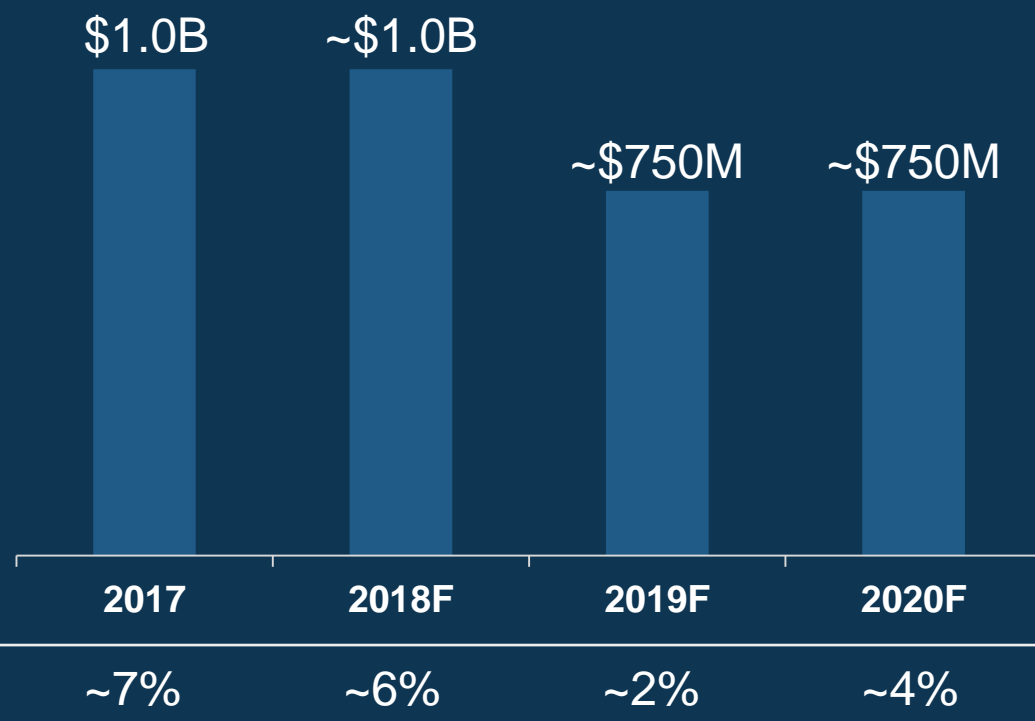




# Growth & Capital Deployment Outlook

# As we complete the integration, we are slowing our investment in growth to focus on pre-tax margin improvement

## Capital Spending Plan



## 2019-2020 Margin Drivers

- Network & schedule refinements
- Merger synergies
- Saver Fare roll-out
- Ancillary revenue changes
- Labor productivity improvements
- Overhead cost control

**Slower near-term growth will enable us to realize synergies, optimize our operation, and implement revenue initiatives**

# In addition to synergy capture, we are targeting \$150M from revenue initiatives next year

Saver Fare will offer more choice to our guests, and some will choose to buy up into our Main Cabin product

		
Seat Assignment	✓	✗
Carry-On Bag	✓	2 of 3 competitors
Ability to Change / Cancel	✗	✗
Rewards Accrual	Mileage-based	Spend-based

**\$100M annual run-rate by 2019**

We are also implementing a series of accretive revenue management changes beginning in 2H18



*Offering Exit Rows for sale*



*Better managing revenue post-sale*



*Demand-based pricing for Premium Class*

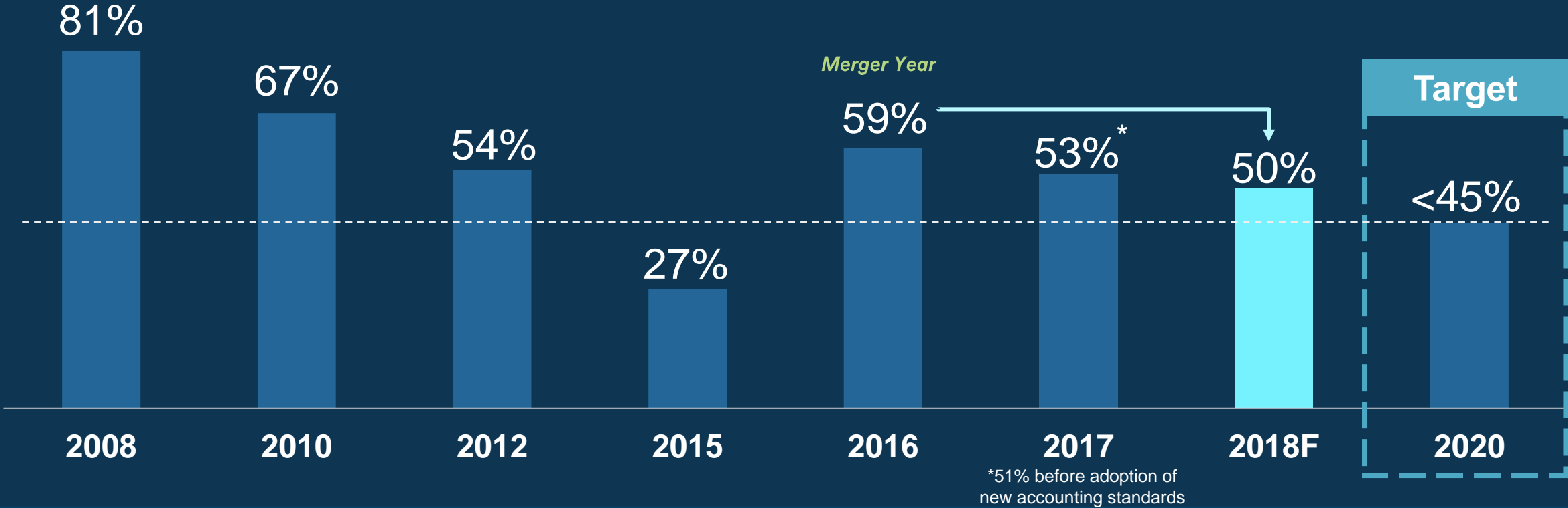


*Eliminating fee waivers for ticket changes outside of 60 days*

**\$50M annual run-rate by 2019 (\$20M in 2H18)**

# Our balance sheet is improving, and we will leverage lower capital spending in 2019-2020 to reduce debt further

Alaska Air Group Debt-to-Cap (%)

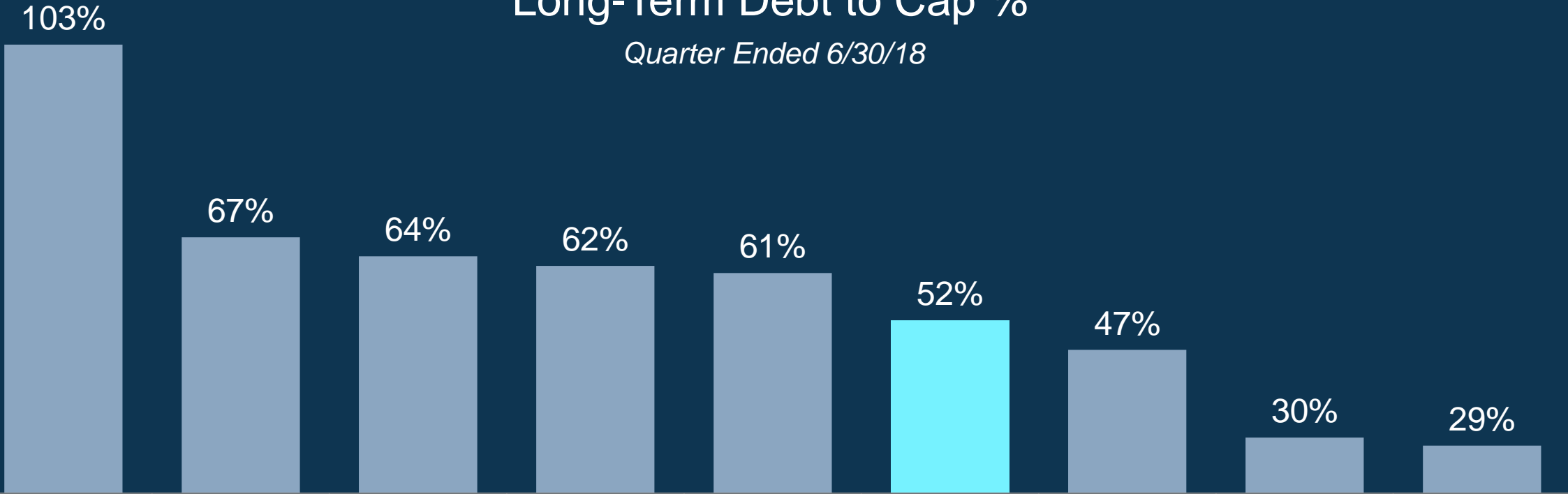


Our leverage target is consistent with other high-quality industrials

# Our leverage remains one of the lowest in the industry

## Long-Term Debt to Cap %

Quarter Ended 6/30/18



spirit  
airlines



allegiant

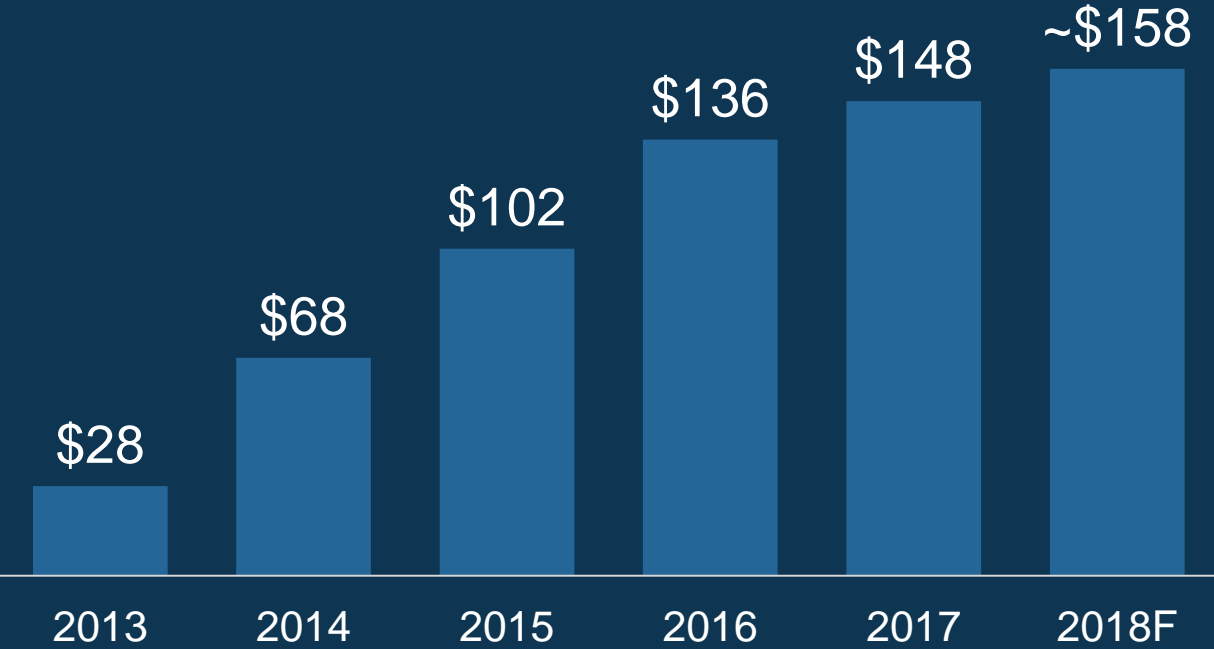
Alaska



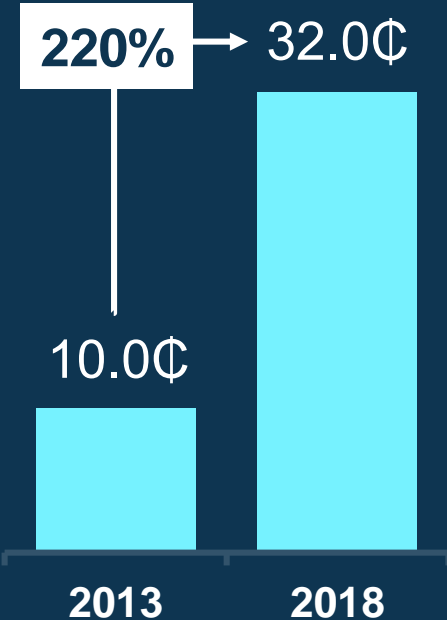
jetBlue

# Our commitment to **growing the dividend** and returning capital to shareholders displays our confidence in the business

Annual Dividend Spend



Increased dividend each year since inception



In millions, except per share values  
Dividend initiated in August 2013; spend subject to Board approval

**We also plan to repurchase \$50M in stock in 2018**



The **integration** will be more than 90% complete by the end of 2018

We now offer the **highest passenger relevance** on the West Coast

Our **loyalty-centered** customer proposition continues to improve

**Margin improvement** is our #1 priority in 2019-2020

We are committed to **balanced capital deployment** and returning excess capital to shareholders